

IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

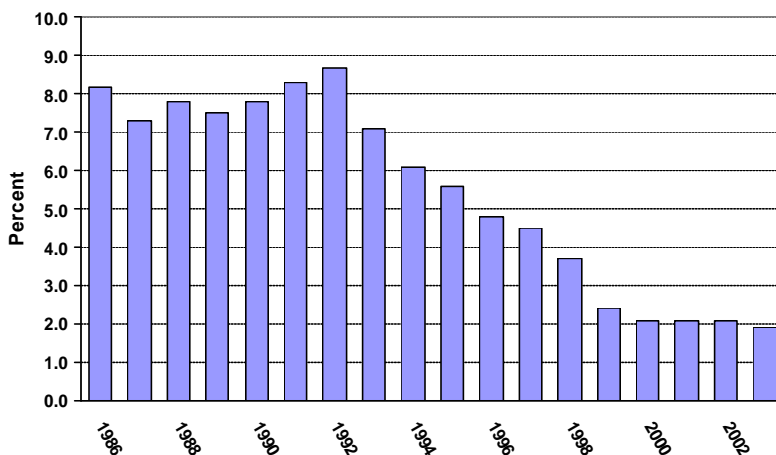
STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

DECEMBER 1999 VOLUME XX NO. 6

Is it Christmas already? If the holiday season seemed to come early this year, maybe it's because Americans have been spending money this year as if everyday was Christmas. Late last year, it was assumed that Yuletide bills would hit harder than a year-old fruitcake between the eyes. As a result, consumers were expected to retreat from living beyond their means. Humbug! Instead, euphoric Americans kept Santa's workshop going on a 24/7 schedule all year by emptying their piggy banks and flashing their credit cards. Over the course of the past year, the U.S. personal saving rate dropped from 3% of personal income to about 2%, and debt has hit record heights. As the accompanying chart shows, the decline in the personal saving rate has been ongoing. It dropped steeply from around 8% in 1992 to just over 2% this year. During this

U.S. Personal Saving Rate



Source: Standard and Poor's DRI

same period, the percent of non-mortgage debt to disposable income shot up from just over 16% to more than 20%. Thus, some fear the traditional buffers of savings and credit will be less available should the economy head south. So why were consumers so giddy? First, St. Nick brought a sack full of jobs for all the good girls and boys that were looking for work this year. The U.S. civilian unemployment rate fell to its lowest level in nearly 30 years, which was well below what economists believe to be the full employment rate. He was kind to the college-educated kids (and their parents), delivering one of the hottest job markets for freshly minted grads in years. He was also generous to those without college degrees as theirs was the most improved employment picture. Second, despite the tight labor market, inflation remained in check. Thus, consumers' dollars went further. Third, the soaring stock market did the saving for American households. Currently, household wealth is more than six times income—a record high. Fourth, the Federal Reserve has done an outstanding job keeping the expansion moving forward. So what was 1999's gift of choice? Big-ticket items were particularly popular, especially cars and computers. Real spending on motor vehicles and parts rose 8.8% in 1999, and computers posted an astounding 50% increase. Furniture and appliance spending advanced nearly 11% as Americans attempted to fill all the homes built and sold in 1999. Despite our best efforts to be good, Santa will probably be less generous next year. In 1999, real consumer spending rose much faster than disposable income. In 2000, they'll both grow at about the same pace. Considering how busy Santa has been this last year, who can argue with him if he wants to take some time off?

Goodbye, Y2K. It seems that each Christmas some creature evolves into the must-have gift of the season. There was Tickle Me Elmo. Then Furbys came along. And this year Pokémon is all the rage. One monster that won't be making the transformation this year is the Y2K bug. Despite getting more publicity than any toy, it appears the Y2K bug could disappear from the public eye faster than New Coke. It seems companies are already dismissing its impact. It was believed that businesses would stockpile goods at the end of 1999 to avert shortages. This would cause inventories to jump in the last quarter of 1999 and fall in the first quarter of 2000. As a result, GDP growth would swing up then down over these two quarters. It now appears that fears over supply interruptions are not as widespread as had once been thought. Thus, any inventory swing should be relatively minor. However, this has other implications. The Federal Reserve was counting on an inventory sell off to slow the economy in the first quarter. Without this occurring, the nation's central bank may be tempted to raise interest rates to force a slowdown. If all goes well, this will be the last we'll hear about the Y2K bug. And maybe this time next year we can return to that great holiday tradition of lining up for a chance to buy the season's hottest toy.

DIRK KEMPTHORNE, Governor

**Division of Financial Management
700 W Jefferson, Room 122
PO Box 83720**

**Boise, Idaho 83720-0032 (208) 334-3900
ADDRESS SERVICE REQUESTED**

**BULK RATE
US POSTAGE
PAID
PERMIT NO. 1
BOISE, ID 83720**

Jeff Malmen, Administrator

Economic Analysis Bureau

Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist

General Fund Update

As of November 30, 1999

<u>Revenue Source</u>	\$ Millions		
	FY00 Executive Estimate ³	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	878.5	299.3	308.0
Corporate Income Tax	92.5	24.6	33.1
Sales Tax	611.8	264.3	270.4
Product Taxes ¹	15.5	6.7	6.9
Miscellaneous	84.6	26.5	29.7
TOTAL GENERAL FUND²	1,682.8	621.4	648.1

¹ Product Taxes include beer, wine, liquor, and cigarette taxes
² May not total due to rounding
³ Revised Estimate as of August 1999

General Fund revenue collections remained ahead of expectations in November, but the gap narrowed for the second consecutive month. Only two categories, Corporate Income Tax and Sales Tax, exceeded their targets by a significant margin. All other revenue categories were very close to the amounts predicted for November. An overall net gain of \$2.4 million for the month brings the General Fund to a level \$26.7 million ahead of the predicted amount for the fiscal year to date.

Individual Income Tax fell slightly (\$0.4 million) short of the predicted amount for November, and now stands \$8.7 million above the year-to-date target. November's weakness was due to \$2.5 million more in refunds than were expected. Both filing collections and withholding collections were higher than expected and largely offset the excess refunds.

Corporate Income Tax collections were \$1.5 million ahead of the target due to lower-than-expected refunds for the month. Although refunds were fully \$2 million lower than expected, corporate filing collections also came in below expectations for November. This category now stands \$8.5 million higher than expected for the fiscal year to date.

Sales Tax collections were \$1.1 million higher than expected in November, bringing the year-to-date excess to \$6.1 million. The sales tax has been ahead of its monthly target in four of the first five months of this fiscal year, with almost \$5 million of the year-to-date excess occurring in the first two months.

Product Tax revenue was exactly on target for the month of November, and Miscellaneous revenues were ahead by a scant \$0.2 million.